

NEWS RELEASE

FOR RELEASE _____

Cline, DeVries & Allen, LLP today released an audit report on the City of Jefferson, Iowa.

The City and its component unit receipts totaled \$6,567,723 for the year ended June 30, 2011, a one percent increase from 2010. The receipts included \$1,719,267 in property tax, \$126,533 from tax increment financing collections, \$2,708,820 from charges for service, \$1,116,196 from operating grants, contributions and restricted interest, \$17,587 from unrestricted investment earnings and \$879,320 from other general receipts.

Disbursements for the year totaled \$6,145,251, a two percent increase from the prior year, and included \$846,638 for community and economic development, \$808,607 for culture and recreation, and \$670,334 for public works. Also, disbursements for business type activities totaled \$1,877,991.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

CITY OF JEFFERSON
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditors' Report	5-6
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 9-10
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 11-12
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 13
Notes to Financial Statements	14-22
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	24-25
Notes to Required Supplementary Information – Budgetary Reporting	26
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 28-31
Schedule of Indebtedness	2 32-33
Bond and Note Maturities	3 34
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 35
Schedule of Expenditures of Federal Awards	5 36
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	38-39
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	41-42
Schedule of Findings and Questioned Costs	43-48

City of Jefferson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Craig Berry	Mayor	Jan 2012
Larry Teeple	Council Member	Jan 2014
Randy Monthei	Council Member	Jan 2012
Bill Figenshaw	Council Member	Jan 2014
Shannon Black	Council Member	Jan 2012
Gary Von Ahsen	Council Member	Jan 2014
Diane Kennedy	Clerk	Jan 2012
Robert A. Schwarzkopf	Attorney	Jan 2012

City of Jefferson

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Jefferson, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Jefferson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Jefferson as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2012 on our consideration of the City of Jefferson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Budgetary comparison information on pages 24-26 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Jefferson's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2010 (none of which are presented herein) and expressed unqualified opinions on those financial statements, which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 16, 2012
Cline DeVries & Allen, LLP
Ames, Iowa

City of Jefferson

Basic Financial Statements

City of Jefferson

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 556,021	22,520	37,153	-
Public works	670,334	6,718	415,065	-
Culture and recreation	808,607	301,414	72,704	-
Community and economic development	846,638	-	591,274	-
Health and social services	9,166	-	-	-
General government	478,417	-	-	-
Debt service	353,579	-	-	-
Capital projects	472,417	-	-	243,802
Total governmental activities	4,195,179	330,652	1,116,196	243,802
Business type activities:				
Water	707,242	998,346	-	-
Sewer	662,918	802,694	-	-
Sanitation	399,774	457,731	-	-
Recycling	108,057	119,397	-	-
Total business type activities	1,877,991	2,378,168	-	-
Component Unit:				
Airport	-	-	-	-
Total	\$ 6,073,170	2,708,820	1,116,196	243,802
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option tax				
Hotel/motel taxes				
Franchise tax				
Unrestricted interest on investments				
Loan proceeds				
Sale of assets				
Miscellaneous				
Rent/dividend				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Governmental Activities	Business Type Activities	Total Primary Government	Major Discretely Presented Component Unit
(496,348)	-	(496,348)	-
(248,551)	-	(248,551)	-
(434,489)	-	(434,489)	-
(255,364)	-	(255,364)	-
(9,166)	-	(9,166)	-
(478,417)	-	(478,417)	-
(353,579)	-	(353,579)	-
(228,615)	-	(228,615)	-
(2,504,529)	-	(2,504,529)	-
-	291,104	291,104	-
-	139,776	139,776	-
-	57,957	57,957	-
11,340	-	11,340	-
11,340	488,837	500,177	-
-	-	-	72,081
(2,493,189)	488,837	(2,004,352)	72,081
1,383,646	-	1,383,646	-
126,533	-	126,533	-
335,621	-	335,621	-
362,965	-	362,965	-
31,469	-	31,469	-
30,824	-	30,824	-
7,483	10,104	17,587	-
-	-	-	-
-	-	-	-
117,481	16,271	133,752	23,381
4,862	-	4,862	48,265
206,458	(206,458)	-	-
2,607,342	(180,083)	2,427,259	71,646
114,153	308,754	422,907	(435)
3,046,256	1,823,878	4,870,134	35,644
\$ 3,160,409	2,132,632	5,293,041	35,209
\$ 201,738	-	201,738	-
192,895	-	192,895	-
140,571	-	140,571	-
38,305	140,106	178,411	-
2,586,900	1,992,526	4,579,426	35,209
\$ 3,160,409	2,132,632	5,293,041	35,209

City of Jefferson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue				
	General	Employee Benefits	Road Use Tax	Neighborhood Stabilization	Local Option Tax
Receipts:					
Property tax	\$ 945,569	438,077	-	-	-
Tax increment financing collections	-	-	-	-	-
Other city tax	62,293	-	-	-	362,965
Licenses and permits	16,912	-	-	-	-
Use of money and property	11,988	-	-	-	-
Intergovernmental	87,008	-	435,417	492,200	-
Charges for service	287,560	-	-	-	-
Miscellaneous	52,169	-	44,611	20,024	-
Total receipts	1,463,499	438,077	480,028	512,224	362,965
Disbursements:					
Operating:					
Public safety	547,785	-	-	-	-
Public works	55,695	-	403,789	-	210,850
Culture and recreation	794,523	-	-	-	-
Community and economic development	211,952	-	-	479,999	-
Health and social services	-	-	-	-	-
General government	478,417	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Business type activities	-	-	-	-	-
Total disbursements	2,088,372	-	403,789	479,999	210,850
Excess (deficiency) of receipts over (under) disbursements	(624,873)	438,077	76,239	32,225	152,115
Other financing sources (uses):					
Note proceeds	-	-	-	-	-
Sale of cemetery lots	-	-	-	-	-
Sale of capital assets	-	-	-	-	-
Operating transfers in	593,394	-	-	77,048	-
Operating transfers out	(127,084)	(380,394)	(52,000)	-	-
Total other financing sources (uses)	466,310	(380,394)	(52,000)	77,048	-
Net change in cash balances	(158,563)	57,683	24,239	109,273	152,115
Cash balances beginning of year	1,176,657	131,427	168,656	-	614,075
Cash balances end of year	\$ 1,018,094	189,110	192,895	109,273	766,190
Cash Basis Fund Balances					
Nonspendable - Cemetery perpetual care	\$ -	-	-	-	-
Restricted for:					
Urban renewal purposes	-	-	-	-	-
Debt service	-	-	-	-	-
Streets	-	-	192,895	-	-
Other purposes	-	189,110	-	109,273	766,190
Unassigned	1,018,094	-	-	-	-
Total cash basis fund balances	\$ 1,018,094	189,110	192,895	109,273	766,190

See notes to financial statements.

Exhibit B

Other Nonmajor Governmental Funds	Total
335,621	1,719,267
126,533	126,533
-	425,258
-	16,912
357	12,345
385,101	1,399,726
80,457	368,017
26,069	142,873
954,138	4,210,931
8,236	556,021
-	670,334
14,084	808,607
154,687	846,638
9,166	9,166
-	478,417
353,579	353,579
472,417	472,417
108,057	108,057
1,120,226	4,303,236
(166,088)	(92,305)
-	-
-	-
-	-
107,994	778,436
(12,500)	(571,978)
95,494	206,458
(70,594)	114,153
955,441	3,046,256
884,847	3,160,409
201,738	201,738
140,571	140,571
38,305	38,305
-	192,895
474,418	1,538,991
29,815	1,047,909
884,847	3,160,409

City of Jefferson

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds**

As of and for the year ended June 30, 2011

	Enterprise Funds			Total	Component	Total
	Water	Sewer	Sanitation		Unit - Airport	
Operating receipts:						
Use of money and property	\$ -	-	-	-	48,265	48,265
Charges for service	985,846	802,694	457,731	2,246,271	-	2,246,271
Miscellaneous	14,334	9,295	514	24,143	23,381	47,524
Total operating receipts	1,000,180	811,989	458,245	2,270,414	71,646	2,342,060
Operating disbursements:						
Public works	-	-	-	-	-	-
Business type activities	465,744	356,028	399,774	1,221,546	72,081	1,293,627
Total operating disbursements	465,744	356,028	399,774	1,221,546	72,081	1,293,627
Excess (deficiency) of operating receipts over (under) operating disbursements	534,436	455,961	58,471	1,048,868	(435)	1,048,433
Non-operating receipts(disbursements):						
Intergovernmental	-	4,628	-	4,628	-	4,628
Interest on investments	5,172	4,932	-	10,104	-	10,104
Debt service	(241,498)	(306,890)	-	(548,388)	-	(548,388)
Net non-operating receipts(disbursements)	(236,326)	(297,330)	-	(533,656)	-	(533,656)
Excess of receipts over disbursements	298,110	158,631	58,471	515,212	(435)	514,777
Operating transfers out	(52,000)	(82,458)	(72,000)	(206,458)	-	(206,458)
Net change in cash balances	246,110	76,173	(13,529)	308,754	(435)	308,319
Cash balances beginning of year	1,123,197	384,699	315,982	1,823,878	35,644	1,859,522
Cash balances end of year	\$ 1,369,307	460,872	302,453	2,132,632	35,209	2,167,841
Cash Basis Fund Balances						
Restricted for debt service	\$ 39,180	100,926	-	140,106	-	140,106
Unreserved	1,330,127	359,946	302,453	1,992,526	35,209	2,027,735
Total cash basis fund balances	\$ 1,369,307	460,872	302,453	2,132,632	35,209	2,167,841

See notes to financial statements.

City of Jefferson

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Jefferson is a political subdivision of the State of Iowa located in Greene County. It was first incorporated in 1854 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Jefferson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Jefferson (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Jefferson Municipal Airport Commission is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Commission was established pursuant to Chapter 330 of the Code of Iowa to operate the City's airport facility. The Commission is composed of five members appointed by the Jefferson City Council.

The Commission's operating budget is subject to the approval of the Jefferson City Council. The Jefferson Municipal Airport is presented as a Business Type Fund.

Jointly Governed Organizations

The City participates in jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Greene County Recycling Agency, Central Iowa Area Safety and Support Organization, and the Golden Circle Municipal Officials Association.

City officials are also members of the Greene County Development Corporation (GCDC) Board. The City paid a total of \$19,750 to GCDC during the fiscal year ended June 30, 2011.

City officials are also members of the North Dallas County Landfill Commission. See Note 8 for disclosures.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for employee benefits financed by the levy for employee benefits.

The Local Option Tax Fund is used to account for local option taxes.

The Neighborhood Stabilization Fund is used to account for the grant being used for housing rehabilitation.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's sanitation services.

The City also reports the following component unit:

The Airport Fund accounts for the operation of the Jefferson Municipal Airport.

C. Measurement Focus and Basis of Accounting

The City of Jefferson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City and its component unit own approximately \$2,325 of par value cooperative stock, which was acquired by patronage dividend. The stock is not readily marketable, and can only be redeemed by the Coop. Therefore market value of the stock is not determinable. The stock is recorded on the books at \$2,325. Although

this type of investment is not permitted by the Code of Iowa, it was acquired by patronage dividend, therefore the City is not in violation of Chapter 12 of the Code of Iowa.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$374 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City’s investment in the Iowa Public Agency Investment Trust and the Coop stock are unrated.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, the recycling truck and revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds		Recycling Truck		Revenue Bonds and Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	305,000	45,546	10,151	600	439,000	106,310	744,000	151,856
2013	315,000	35,328	10,467	284	215,000	91,530	530,000	126,858
2014	330,000	24,460	2,667	21	221,000	85,080	551,000	109,540
2015	340,000	12,580	-	-	228,000	78,450	568,000	91,030
2016	-	-	-	-	235,000	71,610	235,000	71,610
2017-2021	-	-	-	-	1,284,000	248,010	1,284,000	248,010
2022-2024	-	-	-	-	868,000	52,590	868,000	52,590
Total	\$ 1,290,000	117,914	23,285	905	3,490,000	733,580	4,780,000	851,494

Revenue Bonds and Notes

The City has pledged future water and sewer revenue receipts, net of specified operating disbursements to repay the revenue bonds and notes. Proceeds of the bonds and notes provided financing for the construction of water and sewer main improvements. The bonds and notes are payable solely from the water and sewer customer net receipts. The water revenue notes are payable thru 2012 and the sewer revenue bonds are payable thru 2024. Total principal and interest paid during the year for the water revenue notes was \$241,498 and total principal and interest paid during the year for the sewer revenue bonds was \$306,890.

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions.

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue sinking accounts within the Enterprise Funds for the sole

purpose of making the bond and note principal and interest payments when due.

- (c) There shall be set apart and paid into the City's Water Revenue Debt Service Reserve Fund (the Reserve Fund) at the time of delivery the sum of \$182,000. Whenever the sum on deposit in the Reserve Fund has been reduced to less than the required balance, there shall be deposited into the Reserve Fund from the Net Revenues remaining, after first making the required deposits into the Operation and Maintenance Fund and the Sinking Fund, a sum equal to 25% of that month's total deposits into the Sinking Fund, until the sum on deposit in the Reserve Fund has been restored to the Required Reserve Fund Balance. All money credited to the Reserve Fund shall be used and is hereby pledged for the payment of principal and interest on the Series 2003 Bonds and any Parity Obligations whenever the Sinking Fund balance is insufficient.

As of June 30, 2011, the City was in compliance with the net revenues provision of the revenue bonds.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$107,629, \$103,935 and \$94,584, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	<u>\$ 20,014</u>

This liability has been computed based on rates of pay in effect at June 30, 2011. Sick leave is payable when used. It is not paid upon termination, retirement, or death.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:		
Health Insurance Sinking	General	9,000
Library	General	3,000
Equipment Replacement	General	33,000
Neighborhood Stabilization	General	77,048
Equipment Replacement	Special Revenue: Recycling	7,500
Equipment Replacement	Enterprise: Sanitation	20,000
		<u>149,548</u>
Special Revenue:		
General	Urban Renewal Tax Increment	
General	Road Use Tax	52,000
General	Employee Benefits	380,394
General	Recycling	5,000
General	Enterprise: Water	52,000
General	Sewer	52,000
General	Sanitation	52,000
		<u>593,394</u>
Enterprise: Capital Projects	Sewer	30,458
Capital Projects	General	5,036
Total		<u><u>778,436</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) North Dallas County Landfill

An agency, the North Dallas County Landfill, has been established for the collection and disposal of solid waste. The Agency may not be accumulating sufficient financial resources, therefore, the City has an ongoing financial responsibility. Complete financial statements for the Agency can be obtained from the North Dallas County Landfill Agency.

(9) Lease

The City has entered into a lease agreement with Van Horn Partnership for approximately 133 acres of farmland at the City's airport. The lease expired February 29, 2007, and automatically renews upon expiration from year-to-year unless either party gives notice not to renew the lease. The City receives two payments with one-half of the payment due by March 1, and the other half due by November 1 of each year. During the fiscal year ended June 30, 2011, the City received a total of \$24,505 under the lease agreement. The City also leases hangars at the airport. The amounts received under the leases vary depending on the size of the space rented out.

(10) Health Insurance

The City's health insurance plan includes a deductible of \$1,500 for single coverage and \$3,000 for family coverage. The City reimburses the first \$1,200 of the deductibles for individuals with single coverage and the first \$2,400 of the deductibles for individuals with family coverage after the employee has paid at least \$200 of the deductible on a single policy and \$400 of the deductible on a family policy. The City also pays up to a maximum of \$500 per employee per year for in-patient hospitalization. During the year ended June 30, 2011, the City reimbursed employees a total of \$4,808. The maximum liability the City could pay out in one fiscal year is \$81,500 based on the number of employees under single or family insurance at June 30, 2011.

(11) Deficit Fund Balances

The City had deficit balances in the following funds at June 30, 2011:

Special Revenue:

Cemetery Land Reserve	1,428
-----------------------	-------

Capital Projects Funds:

Railroad Grade Separation	246,121
Airport Improvements	18,307

The deficits in the projects will be eliminated by receipt of grant funds and transfers.

(12) Related Party Transactions

The City had business transactions between the City and City officials totaling \$16,525 during the year ended June 30, 2011.

(13) Subsequent Event

Subsequent events have been evaluated through January 16, 2012, the date of this report. In August 2011, the City approved a contract with an asphalt company for the ACC Overlay project in the amount of \$251,411.

Required Supplementary Information

City of Jefferson
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Discretely Presented Component Unit Included in the Budget	Net
Receipts:				
Property tax	\$ 1,719,267	-	-	1,719,267
Tax increment financing collections	126,533	-	-	126,533
Other city tax	425,258	-	-	425,258
Licenses and permits	16,912	-	-	16,912
Use of money and property	12,345	10,104	48,265	70,714
Intergovernmental	1,399,726	4,628	-	1,404,354
Charges for service	368,017	2,246,271	-	2,614,288
Special assessments	-	-	-	-
Miscellaneous	142,873	24,143	23,381	190,397
Total receipts	4,210,931	2,285,146	71,646	6,567,723
Disbursements:				
Public safety	556,021	-	-	556,021
Public works	670,334	-	-	670,334
Health and Social Services	9,166	-	-	9,166
Culture and recreation	808,607	-	-	808,607
Community and economic development	846,638	-	-	846,638
General government	478,417	-	-	478,417
Debt service	353,579	-	-	353,579
Capital projects	472,417	-	-	472,417
Business type activities	108,057	1,769,934	72,081	1,950,072
Total disbursements	4,303,236	1,769,934	72,081	6,145,251
Excess (deficiency) of receipts over (under) disbursements	(92,305)	515,212	(435)	422,472
Other financing sources, net	206,458	(206,458)	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	114,153	308,754	(435)	422,472
Balances beginning of year	3,046,256	1,823,878	35,644	4,905,778
Balances end of year	\$ 3,160,409	2,132,632	35,209	5,328,250

See accompanying independent auditors' report.

Budgeted Amounts		Final to Net Variance
Original	Final	
1,683,404	1,683,404	35,863
119,151	119,151	7,382
337,553	335,533	89,725
16,425	14,995	1,917
76,427	70,656	58
494,716	1,532,430	(128,076)
2,825,584	2,615,710	(1,422)
-	-	-
33,100	119,379	71,018
5,586,360	6,491,258	76,465

567,780	576,080	20,059
499,624	572,624	(97,710)
14,000	14,000	4,834
925,143	925,143	116,536
217,151	858,151	11,513
499,314	499,314	20,897
345,280	345,380	(8,199)
229,450	586,450	114,033
2,110,114	2,110,114	160,042
5,407,856	6,487,256	342,005

178,504	4,002	418,470
-	-	-

178,504	4,002	418,470
4,612,825	4,612,825	292,953
4,791,329	4,616,827	711,423

City of Jefferson

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Proprietary Funds, the Permanent Fund and the Component Unit. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$904,898 and \$1,079,400 respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works and debt service functions.

Other Supplementary Information

City of Jefferson

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds**

As of and for the year ended June 30, 2011

					Special	
	Recycling	Urban Renewal Tax Increment	Enrich Iowa	Unemployment Compensation	LEC Capital Improvement	Skate Park
Receipts:						
Property taxes	\$ -	-	-	-	-	-
Tax increment financing	-	126,533	-	-	-	-
Other city tax	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	-
Intergovernmental	44,634	-	1,859	-	6,666	-
Charges for service	80,457	-	-	-	-	-
Miscellaneous	35	1,515	-	-	775	-
Total receipts	125,126	128,048	1,859	-	7,441	-
Disbursements:						
Operating:						
Public safety	-	-	-	-	1,749	-
Public works	-	-	-	-	-	-
Culture and recreation	-	-	1,859	-	-	-
Community and economic development	-	132,628	-	-	-	-
Health and social services	-	-	-	-	-	-
General government	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Business type activities	108,057	-	-	-	-	-
Total disbursements	108,057	132,628	1,859	-	1,749	-
Excess (deficiency) of receipts over (under) disbursements	17,069	(4,580)	-	-	5,692	-
Loan Proceeds	-	-	-	-	-	-
Operating transfers in(out)	(12,500)	-	-	-	-	-
Total other financing sources	(12,500)	-	-	-	-	-
Net change in cash balances	4,569	(4,580)	-	-	5,692	-
Cash balances beginning of year	142,094	145,151	1,215	28,600	7,169	1,525
Cash balances end of year	\$ 146,663	140,571	1,215	28,600	12,861	1,525
Cash Basis Fund Balances						
Nonspendable - Cemetery perpetual care	\$ -	-	-	-	-	-
Restricted for:						
Urban renewal	-	140,571	-	-	-	-
Debt service	-	-	-	-	-	-
Other purposes	146,663	-	-	-	12,861	1,525
Unassigned	-	-	1,215	28,600	-	-
Total cash basis fund balances	\$ 146,663	140,571	1,215	28,600	12,861	1,525

See accompanying independent auditors' report.

Revenue						
Library	Cemetery Mahaney Mausoleum	Industrial Development Emergency Draw	Cemetery Land Reserve	Community Center	Payroll Clearing	Equipment Replacement
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	78	90	10	5	-	174
1,961	-	-	-	-	-	-
-	-	-	-	-	-	-
13,476	-	-	-	-	-	-
15,437	78	90	10	5	-	174
-	-	-	-	-	-	-
-	-	-	-	-	-	-
12,225	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
12,225	-	-	-	-	-	-
3,212	78	90	10	5	-	174
-	-	-	-	-	-	-
3,000	-	-	-	-	-	60,500
3,000	-	-	-	-	-	60,500
6,212	78	90	10	5	-	60,674
46,912	11,135	34,682	(1,438)	5,771	7,311	127,822
53,124	11,213	34,772	(1,428)	5,776	7,311	188,496
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
53,124	11,213	34,772	(1,428)	5,776	7,311	188,496
-	-	-	-	-	-	-
53,124	11,213	34,772	(1,428)	5,776	7,311	188,496

City of Jefferson
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue					
	Health Insurance Sinking Fund	Downtown Streetscape	Cafeteria Plan	Self Insurance and Employee Benefits	Housing Rehabilitation	Police Federal Forfeiture
Receipts:						
Property taxes	-	-	-	-	-	-
Tax increment financing	-	-	-	-	-	-
Other city tax	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	-
Intergovernmental	-	-	-	-	99,074	9,000
Charges for service	-	-	-	-	-	-
Miscellaneous	394	-	4,800	-	2,849	-
Total receipts	394	-	4,800	-	101,923	9,000
Disbursements:						
Operating:						
Public safety	-	-	-	-	-	6,487
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Community and economic development	-	39,063	-	-	(17,004)	-
Health and social services	4,808	-	4,358	-	-	-
General government	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Business type activities	-	-	-	-	-	-
Total disbursements	4,808	39,063	4,358	-	(17,004)	6,487
Excess (deficiency) of receipts over (under) disbursements	(4,414)	(39,063)	442	-	118,927	2,513
SRF loan proceeds	-	-	-	-	-	-
Operating transfers in (out)	9,000	-	-	-	-	-
Total other financing sources (uses)	9,000	-	-	-	-	-
Net change in cash balances	4,586	(39,063)	442	-	118,927	2,513
Cash balances beginning of year	15,067	65,196	3,951	45,090	(94,396)	-
Cash balances end of year	19,653	26,133	4,393	45,090	24,531	2,513
Cash Basis Fund Balances						
Nonspendable - Cemetery perpetual care	-	-	-	-	-	-
Restricted for:						
Urban renewal	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Other purposes	19,653	26,133	4,393	45,090	24,531	2,513
Unassigned	-	-	-	-	-	-
Total cash basis fund balances	19,653	26,133	4,393	45,090	24,531	2,513

See accompanying independent auditors' report.

Debt Service		Capital		
Tax Increment Financing	General Obligations	Projects	Permanent Cemetery Perpetual Care	Total
		Projects	Care	Total
-	335,621	-	-	335,621
-	-	-	-	126,533
-	-	-	-	-
-	-	-	-	357
-	-	221,907	-	385,101
-	-	-	-	80,457
-	-	-	2,225	26,069
-	335,621	221,907	2,225	954,138
-	-	-	-	8,236
-	-	-	-	-
-	-	-	-	14,084
-	-	-	-	154,687
-	-	-	-	9,166
-	-	-	-	-
-	353,579	-	-	353,579
-	-	472,417	-	472,417
-	-	-	-	108,057
-	353,579	472,417	-	1,120,226
-	(17,958)	(250,510)	2,225	(166,088)
-	-	-	-	-
-	-	35,494	-	95,494
-	-	35,494	-	95,494
-	(17,958)	(215,016)	2,225	(70,594)
7,894	48,369	106,808	199,513	955,441
7,894	30,411	(108,208)	201,738	884,847
-	-	-	201,738	201,738
-	-	-	-	140,571
7,894	30,411	-	-	38,305
-	-	(108,208)	-	474,418
-	-	-	-	29,815
7,894	30,411	(108,208)	201,738	884,847

City of Jefferson
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds: Corporate purpose bonds	Sep 1, 2003	2.95-3.70%	\$ 1,875,000
Revenue notes: Water	Mar 1, 2003	2.00-3.70%	\$ 1,820,000
State revolving loan: 2003 Sewer revenue bonds	Jun 30, 2003	3.00%	\$ 4,951,000
Recycling truck	Oct, 2007	3.00%	\$ 59,749

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
1,580,000	-	290,000	1,290,000	54,680	-
455,000	-	225,000	230,000	16,498	-
3,463,000	-	203,000	3,260,000	103,890	-
33,130	-	9,845	23,285	906	-

Schedule 3

City of Jefferson
Bond and Note Maturities

June 30, 2011

General Obligation Notes		
Year Ending June 30,	Corporate Purpose	
	Issued Sep 2003	
	Interest Rates	Amount
2012	3.35	305,000
2013	3.45	315,000
2014	3.60	330,000
2015	3.70	340,000
Total		<u>\$ 1,290,000</u>

Year Ending June 30,	Revenue Notes				Other Debt	
	Water		State Revolving Loan 2003 Sewer Revenue Bonds		Recycling Truck	
	Issued Mar 1, 2003		Issued Jun 30, 2003		Issued Oct 2007	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	3.70	230,000	3.00	209,000	3.00	10,151
2013		-	3.00	215,000	3.00	10,467
2014		-	3.00	221,000	3.00	2,667
2015		-	3.00	228,000		-
2016		-	3.00	235,000		-
2017		-	3.00	242,000		-
2018		-	3.00	249,000		-
2019		-	3.00	257,000		-
2020		-	3.00	264,000		-
2021		-	3.00	272,000		-
2022		-	3.00	281,000		-
2023		-	3.00	289,000		-
2024		-	3.00	298,000		-
Total		<u>\$ 230,000</u>		<u>\$ 3,260,000</u>		<u>\$ 23,285</u>

See accompanying independent auditors' report.

Schedule 4

City of Jefferson

**Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Eight Years**

	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:								
Property tax	\$ 1,719,267	\$ 1,691,846	\$ 1,664,104	\$ 1,558,793	\$ 1,586,705	\$ 1,599,116	\$ 1,535,837	\$ 1,413,435
Tax increment financing collections	126,533	114,103	113,542	358,511	307,079	251,752	206,592	184,977
Other city tax	425,258	425,470	461,913	335,753	144,994	56,549	55,725	57,917
Licenses and permits	16,912	23,739	17,592	26,435	33,796	18,089	18,303	14,600
Use of money and property	12,345	18,029	29,917	35,073	35,863	16,862	14,096	12,225
Intergovernmental	1,399,726	1,387,136	518,174	691,411	742,255	950,415	915,590	606,722
Charges for service	368,017	372,619	377,566	395,006	413,822	456,697	457,735	316,278
Miscellaneous	142,873	88,851	389,056	104,313	97,895	72,250	107,909	115,591
Total	\$ 4,210,931	\$ 4,121,793	\$ 3,571,864	\$ 3,505,295	\$ 3,362,409	\$ 3,421,730	\$ 3,311,787	\$ 2,721,745
Disbursements:								
Operating:								
Public safety	\$ 556,021	\$ 599,584	\$ 522,416	\$ 586,397	\$ 497,633	\$ 496,320	\$ 489,929	\$ 556,413
Public works	670,334	548,141	395,213	398,133	371,245	404,907	440,591	423,836
Culture and recreation	808,607	4,755	9,202	6,740	7,988	883,826	803,456	778,352
Community and economic development	846,638	809,681	865,424	834,445	871,208	478,638	410,310	154,769
Health and social services	9,166	555,759	224,503	608,126	297,139	15,142	8,492	-
General government	478,417	456,253	447,921	867,015	435,667	449,568	391,135	369,158
Debt service	353,579	334,210	337,605	461,684	588,602	595,908	1,700,641	577,531
Capital projects	472,417	571,143	583,660	59,528	155,407	878,420	2,344,771	4,102,904
Business type activities	108,057	105,400	114,192	81,851	207,691	80,398	-	-
Total	\$ 4,303,236	\$ 3,984,926	\$ 3,500,136	\$ 3,903,919	\$ 3,432,580	\$ 4,283,127	\$ 6,589,325	\$ 6,962,963

See accompanying independent auditors' report

Schedule 5

City of Jefferson

Schedule of Expenditures of Federal Awards

June 30, 2011

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	08-HSG-038	\$ 54,578
Community Development Block Grants/State's Program	14.228	08-NSP-010	<u>492,200</u>
			<u>546,778</u>
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Airport Improvement Program	20.106	3-19-0049-06	\$ <u>31,033</u>
Highway Planning and Construction	20.205	HDP-4-2(38)—71-37	\$ <u>296,393</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Management Division:			
Disaster Grants – Public Assistance	97.036	FEMA-1877-DRIA	\$ <u>10,313</u>
Total			\$ <u>884,517</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Jefferson and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report

City of Jefferson

Independent Auditors' Report on
Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Jefferson, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 16, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Jefferson's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Jefferson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Jefferson's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Jefferson's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-11 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Jefferson's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Jefferson's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Jefferson's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Jefferson and other parties to whom the City of Jefferson may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Jefferson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 16, 2012
Cline DeVries & Allen, LLP
Ames, Iowa

**Independent Auditors' Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct
and Material Effect on Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133

To the Honorable Mayor and Members of the City Council:

Compliance

We have audited the City of Jefferson, Iowa's compliance, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2011. City of Jefferson's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Jefferson's management. Our responsibility is to express an opinion on the City of Jefferson's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing Standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Jefferson's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Jefferson's compliance with those requirements.

In our opinion, the City of Jefferson complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

The management of the City of Jefferson is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Jefferson's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of

internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Jefferson's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

City of Jefferson's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Jefferson's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Jefferson and other parties to whom City of Jefferson may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these parties.

January 16, 2012
Cline DeVries & Allen, LLP
Ames, Iowa

City of Jefferson

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City did not qualify as a low-risk auditee.

City of Jefferson

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

II-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We will review our procedures.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Jefferson
Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

None.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 08-HSG-038 and 08-NSP-010
Federal Award Year: 2011
U.S. Department of Housing and Urban Development
Passed Through the Iowa Department of Economic Development

- III-A-11 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-11.

City of Jefferson
Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Statutory Reporting:

IV-A-11 **Certified Budget** – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public works and debt service functions.

Recommendation – Although the budget was amended, it should have been amended in an amount sufficient to not be exceeded.

Response – We will do so in the future.

Conclusion – Response accepted.

IV-B-11 **Questionable Disbursements** –No disbursements were noted that may not meet the test of public purpose.

IV-C-11 **Travel Expense** – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 **Business Transactions** –Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Derek Teeples, brother of employee and son of Council Member, owner of Teeples Heating and Cooling	Services	5,198
Shadran, owned by Council Member Randy Monthei	Supplies	11,327

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions above appear to represent conflicts of interest since they exceeded \$1,500. Approximately \$2,000 of the services from Teeples Heating and Cooling was done thru the competitive bidding process.

Recommendation – The City should consult with legal counsel to determine the disposition of this matter.

Response – We will do so.

Conclusion – Response accepted.

City of Jefferson

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- IV-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-11 Deposits and Investments - The City and its component unit own \$2,325 par value common stock of the West Central Cooperative. Although this type of investment is not permitted by the Code of Iowa, it was acquired by patronage dividend, therefore the City is not in violation of Chapter 12 of the Code of Iowa.

The stock is not readily marketable, and can only be redeemed by the Coop and thus no market value of the shares is determinable. However, the City should monitor the marketability of the stock and consider selling the stock if a market becomes available.

- IV-H-11 Revenue Bonds and Notes - Interest paid on the water revenue bond was paid from the sewer revenue sinking account and the debt service fund. It should have been paid from the water sinking account as required by the water bond resolution.

Recommendation - The City should transfer money from the water sinking account to the funds that paid the debt interest to reimburse those funds.

Response - We will do so.

Conclusion - Response accepted.

- IV-I-11 Outstanding Checks - Per Chapter 556.11 of the Code of Iowa, checks that are still outstanding after three years should be reported to the State Treasurer annually by November 1st. The City did not do this.

Recommendation - The City should comply with Chapter 556.11 of the Code of Iowa.

Response - We will do so.

Conclusion - Response accepted.

City of Jefferson
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

IV-J-10 Financial Condition - The City had the following deficit balances at June 30, 2011:

Special Revenue Funds:

Cemetery Land Reserve	1,428
-----------------------	-------

Capital Projects Funds:

Airport Improvements	18,307
Railroad Grade Separation	246,121

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response - The deficits will be eliminated.

Conclusion - Response accepted.

IV-K-11 I-Jobs Revenue - The City received \$24,584 in I-Jobs revenue from the State of Iowa. The City deposited the money into their Road Use Account. According to the Iowa Department of Revenue, this money should be deposited into any fund other than the Special Revenue, Road Use Tax Account.

Recommendation - The City should transfer the I-Jobs revenue to the appropriate fund and deposit all future I-Jobs Revenue into a fund other than the Special Revenue, Road Use Tax Account.

Response - We will do so.

Conclusion - Response accepted.